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March 26, 2002

**EX PARTE**

Mr. William Caton  
Acting-Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> St. SW  
Washington, D.C. 20554

Re: CC Docket No. 02-35

Dear Mr. Caton:

In connection with BellSouth's application for 271 approval in the states of Georgia and Louisiana, Commission staff has asked BellSouth to respond to certain issues raised by commenters. This letter responds to certain pricing related questions posed by the staff. In accordance with section 1.1206 of the Commission's rules, I am filing two copies of this response and request that you include them in the record of the above-referenced proceeding.

**Loop Drop Lengths**

The staff first asks for a response to an assertion made by commenter WorldCom that BellSouth's pricing models for Georgia and Louisiana inappropriately use a single average drop length in calculating loop rates, rather than disaggregating lengths for different density zones. Specifically, WorldCom witness Frentup claims that "drop lengths used to set UNE Loop rates should vary by line density." Frentup Decl. at para. 20. In fact, the drop lengths used by BellSouth effectively do vary by density zone because of the manner in which the loop rates were de-averaged.

In Georgia, BellSouth's cost model began by calculating a statewide average loop cost. In doing so, BellSouth appropriately used a statewide average drop length. However, zone-specific ratios from the Benchmark Cost Proxy Model

(BCPM) were then applied to the statewide average loop cost in order to create de-averaged zone rates. The BCPM used internal algorithms to determine drop lengths that differ by density zone. Thus, even though BellSouth began with an average drop length to calculate statewide average loop costs in Georgia, the ratios used to de-average those costs caused the final de-averaged rates to reflect "density-specific" drop lengths.

In Louisiana, BellSouth used the BellSouth Telecommunications Loop Model (BSTLM), which uses actual customer locations to establish loop lengths for each wire center. Thus, loop costs in Louisiana reflect the specific drop lengths for actual customer locations for the wire centers within each density zone.

### **Loading Factors**

The staff has also asked that we respond to general assertions made by WorldCom that the loading factors used by BellSouth to set UNE rates in Georgia and Louisiana are excessive. In both the Georgia and Louisiana state proceedings, BellSouth provided detailed descriptions of the methodology, data sources, and assumptions that were used in the development of its factors in the filed cost studies. Additionally, BellSouth provided an electronic copy of the files used to develop the factors such that users could adjust inputs, if desired. In fact, Louisiana Public Service Commission consultant Kimberly Dismukes was able to review the factors, understand the methodology, and modify the inputs she believed required revision in Docket No. U-24714-A. The modifications made by Dismukes involved factors that Mr. Frentrop claims BellSouth did not document: "annual cost factors (depreciation, cost of capital, and taxes), the development of annual expense factors, pole, conduit and trench sharing and shared and common cost calculations and assumptions." Dismukes Testimony, Docket No. U-24714-A, at 9 (LPSC filed Feb. 26, 2001) (Initial Application, App. F-LA, Tab 9).

At the outset, I would emphasize that despite the availability of this information in the state proceedings, neither WorldCom nor AT&T raised significant issues concerning BellSouth's loading factors before the state commissions. In Georgia Docket 7061-U, AT&T and MCI WorldCom focused little attention on BellSouth's use of in-plant factors or other loading factors. Their sole testimony on the issue was contained in pre-filed testimony of AT&T witness James Wells, who only addressed the cable material and conduit loading factors. Wells Rebuttal Testimony, Docket 7061-U, at 40-47 (GPSC filed Aug. 29, 1997). In its Post-Hearing Brief in Docket 7061-U, AT&T devoted one paragraph to the issue, simply contending that BellSouth's loading factors were based on "embedded cost data" and "tremendously inflate its material prices." AT&T Post-Hearing Brief, at 29 (GPSC filed Oct. 1, 1997). MCI WorldCom's Post-Hearing Brief and Proposed Order in Docket 7061-U did not address the issue at all. MCI Brief and Proposed Order (GPSC filed Oct. 1, 1997). Furthermore, neither AT&T nor MCI WorldCom offered any reasonable alternative to the in-plant and other loading factors used by BellSouth, nor did they propose any specific adjustments to BellSouth's cost studies to address their concerns, other than to advocate use

of assumptions from the Hatfield Model, which the Georgia Public Service Commission specifically rejected. Wells Rebuttal Testimony, Docket 7061-U, at 45-47 (GPSC filed Aug. 29, 1997). The GPSC accepted BellSouth's use of in-plant and other loading factors. See *GPSC Order Establishing Cost-Based Rates*, at 37-38 (declining to make any adjustments to BellSouth's cost studies other than those proposed by Staff). Interestingly, in the other proceedings in which the GPSC addressed costs – Docket 10692-U (combinations) and Docket 11901-U (xDSL and related services) neither AT&T nor MCI WorldCom objected to the use of BellSouth's loading factors.

In Louisiana Docket No. U-24714-A, SECCA recommended that the LPSC adopt the "more accurately 'loaded' material investments adopted by the Florida Commission" in its Universal Service Fund proceeding. Wilsky/Wood Testimony, Docket No. U-24714-A, at 53 (LPSC filed Feb. 26, 2001) (Initial Application, App. F-LA, Tab 10). BellSouth rebutted SECCA's contention, in part, by stating that BellSouth is the only party that has proposed BellSouth-specific inputs in the proceeding. See Caldwell Rebuttal Testimony, Docket No. U-24714-A, at 62-65 (LPSC filed Mar. 26, 2001) (Initial Application, App. F-LA, Tab 14). Neither the Staff nor the Administrative Law Judge nor the LPSC agreed with SECCA's recommendation. In fact, even the Florida Commission rejected this same proposal for the state of Florida in Docket No. 990649-TP, Florida's generic cost docket. In its Order, the Florida Commission recognized "the inputs ordered in our Universal Service proceeding are for a different purpose and are not appropriate here." Further, the Florida Commission stated: "we find that the appropriate assumptions and inputs for the associated cable placement costs are those identified by BellSouth." Order No. PSC-01-1181-FOF-TP, Docket No. 990649-TP, at 190 (FL PSC May 25, 2001).

Worldcom's witness Frentrup makes a number of assertions in this proceeding, all of which were made by Worldcom and rebutted by BellSouth in Docket No. 1-277. First, Mr. Frentrup asserts that BellSouth's in-plant factors should be practically identical in Georgia and Louisiana. This conclusion is flawed because each state negotiates vendor placement contracts independently, has different work content, and imposes unique state taxes. Thus, the in-plant factors should be expected to differ by state.

Mr. Frentrup also asserts that "because BellSouth applies the same loading factors to all sizes of equipment, these factors add a great deal more total cost to areas that are served by large switches or cable sizes." WorldCom Frentrup Decl., ¶16. In other words, Mr. Frentrup contends that BellSouth does not accurately reflect the de-averaged costs of loops because supposedly in-plant loading factors overstate costs in high-density (large cable, larger switches) areas. First, the application of switch-related in-plant factors has a relatively small impact on total switch costs – an 8% loading was used in Georgia and 14% in Louisiana. Further, switching elements were not de-averaged in either Georgia or Louisiana, thus an average factor is appropriate. Even if switching elements were de-

averaged, the modularity of digital switching makes Mr. Frentrup's large switch/small switch argument unsupportable. That is, the use of Host/Remote configurations and the ability to grow switches in discrete amounts to handle customer requirements allow companies to economically fit switch equipment purchases to meet demand. Thus, any difference between density zones is minimized.

In Louisiana Docket No. U-24714-A, SECCA made an argument similar to the one proffered by Mr. Frentrup with respect to the loop cost development, contending that BellSouth's outside plant in-plant loading factors overstate the costs of larger sized cables. Wilsky/Wood Testimony, Docket No. U-24714-A, at 49 (LPSC filed Feb. 26, 2001). While the relationship of the combined costs of installation labor, exempt material, sales tax and engineering to total material costs may not be perfectly linear, the use of in-plant factors nonetheless produces representative cost results when viewed on a total cable placement basis. In other words, while the use of in-plant factors may potentially overstate, to some degree, the costs for large size cables, the corollary is also true (i.e., that the in-plants potentially understate, to some degree, the costs for small size cables.) What is important is that these factors accurately reflect the average costs associated with installing a cable. SECCA's argument was not persuasive to either the LPSC staff consultant or to the LPSC, which adopted BellSouth's in-plant factor approach. Moreover, because loop costs are de-averaged in both states, economies associated with larger cable sizes in denser areas are ultimately reflected in the rates that CLECs pay.

Indeed, BellSouth's pricing models accurately reflected the differences in loop costs by density zone. As discussed above in connection with drop lengths, BellSouth used the BCPM to generate ratios in Georgia, which were applied to the statewide average results. The BCPM reflected differences in installation costs by density zone and thus, these differences were reflected in Georgia's de-averaged loop costs. In Louisiana, the BSTLM calculated the material cost of an average cable, one reflecting various cable sizes, at the wire center level<sup>1</sup>. Application of BellSouth's in-plant factors to these wire-center specific material prices accurately captures the difference in installation costs relative to density.

Mr. Frentrup comments that "in Georgia the cost of an unbundled loop is more than doubled by the use of these factors." Frentrup Decl., ¶15. Although Mr. Frentrup apparently is surprised by the fact that the sum of engineering labor costs, construction labor (placing and splicing) costs, exempt material, and sales tax (i.e., the items captured by the in-plant factors) exceeds the cost of material, he should not be. First, the construction of outside plant facilities is extremely

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<sup>1</sup> The BSTLM results reflect a much greater incidence of small sized cables than what is actually found in the network. In Louisiana, the BSTLM distribution was as follows: 25 pair (60%), 50 pair (13%), 100 pair (10%), 200 pair (6%), 300 pair (3%) with only about 8% of the placements related to cable sizes of 400 pair and larger.

labor-intensive. BellSouth and vendor placing and splicing costs add significantly to the cost of cable installation. Second in order to install cable, miscellaneous items that are not driven to specific accounts, e.g., anchors, guys, terminals that are less than 100-pair, patch cords, and pigtails, are required. These items are reflected in the exempt material expenses. Also, engineering is a legitimate cost associated with cable placement. Additionally, there are other extraneous items that are associated with cable placement such as right-of-way acquisitions, interest during construction, and leasing of heavy equipment, that are captured in the in-plant factors. Therefore, an in-plant loading for *unbundled loops* in excess of 100% is not unusual and should not be a source of concern.

Nonetheless, Mr. Frentrup attempts to leverage the Commission's reference to Verizon's modification in Rhode Island, which reduced the switching loading factor from 60%, to conclude that BellSouth's loop-related in-plant factors should also be reduced. Frentrup Decl., ¶15. This comparison is apples-to-oranges. First, it should be pointed out that BellSouth's switching in-plant loading in Georgia *is less than 8%* and in Louisiana *is approximately 14%*. These rates are, quite obviously, far less than the 60% switching factor the Commission found unsupported in the Rhode Island order. Second, there is absolutely no correlation between switching in-plant loading factors and outside plant in-plant loading factors. This is apparent simply by examining the types of installation work being performed and the environment in which the installation takes place — one involving placing and splicing cable in the outside environment and the other involving the installation of electronic equipment in a controlled environment. It should be rather obvious that loop-related in-plant factors justifiably exceed those for switching.

We trust this information is responsive to your questions. Please feel free to contact me if you would like any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn T. Reynolds", with a stylized, cursive script.

Glenn T. Reynolds

cc: Renee Crittendon  
Marvin Sacks  
Deena Shetler  
Susan Pie  
James Davis-Smith (Department of Justice)